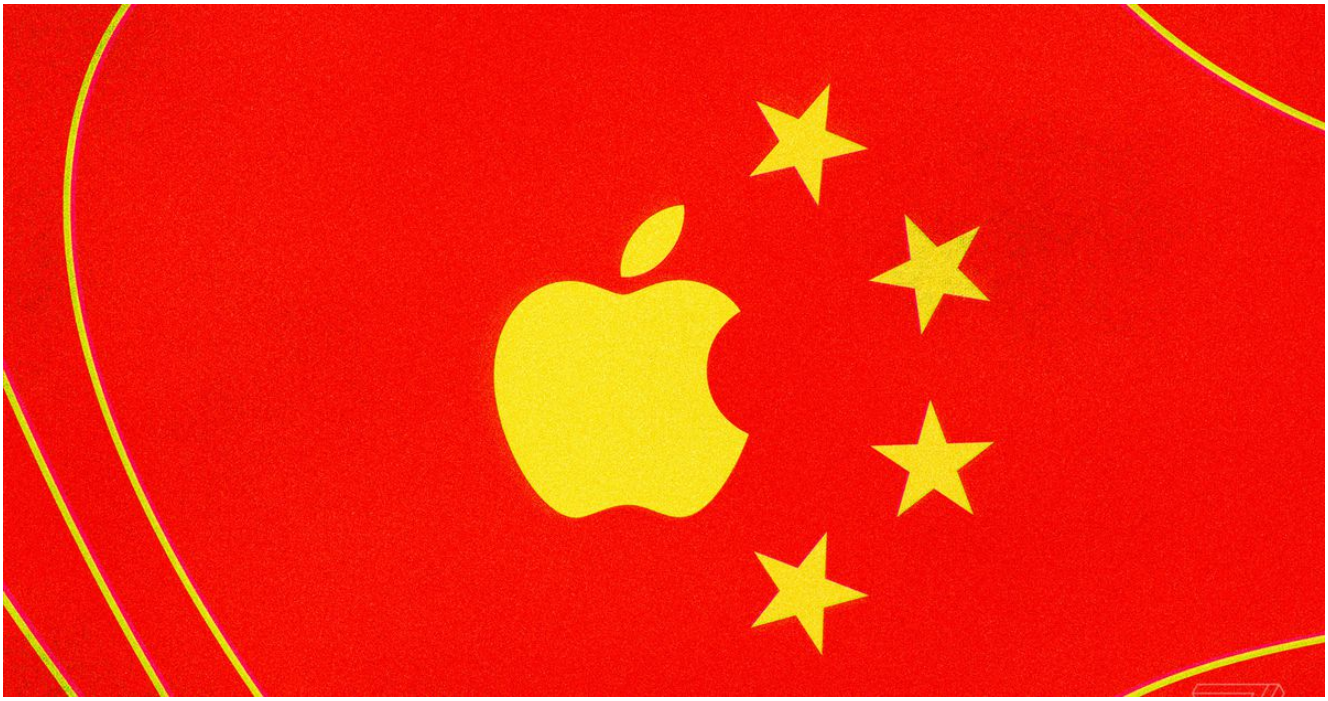
How Trump’s WeChat ban could devastate Apple’s Chinese business



President Trump’s executive order banning WeChat could have far-reaching consequences for almost the entire technology industry, thanks to the app’s parent company, Tencent, having investments in companies like Riot Games and other US-based brands. But the ban could also have a big impact on Apple, which is deeply entrenched in China.

Apple has a significant Chinese customer base, and nearly all of its critical manufacturing and assembly partners are based there. Trump’s ban might not only force Apple to remove WeChat from its App Store — which would destroy Apple’s Chinese smartphone business — it could existentially change how Apple is able to build and sell new products in the future.

It’s hard to emphasize the prominence of WeChat in China. As analyst Ben Thompson put it in 2017, “There is nothing in any other country that is comparable, particularly the Facebook properties (Facebook, Messenger, and WhatsApp) to which WeChat

is commonly compared. All of those are about communication or wasting time: WeChat is that, but it is also for reading news, for hailing taxis, for paying for lunch (try and pay with cash for lunch, and you'll look like a luddite), for accessing government resources, for business. For all intents and purposes WeChat is your phone, and to a far greater extent in China than anywhere else, your phone is everything."

An iPhone without WeChat is effectively not a phone at all
An iPhone without WeChat is effectively not a phone at all for the hundreds of millions of Chinese users that rely on the service – customers on which Apple's entire iPhone business model relies. If Apple can't offer WeChat on the iPhone due to Trump's ban, then its Chinese business will almost certainly evaporate overnight.

Apple is caught in a trap of its own making here, thanks to its locked-down platform. A more open system, similar to Google's Android, would let users install WeChat without Apple's explicit approval. It wouldn't be ideal for Apple, but at least millions of Chinese customers could still use their iPhones.

But the WeChat / Tencent ban could have an even more dramatic impact on Apple by escalating the ongoing conflict between the United States and China, which have been embroiled in a trade dispute for years. Apple has already started to feel the initial ramifications here: a 25 percent tariff on five parts for its Mac Pro desktops; 10 percent tariffs on its chargers, the HomePod, AirPods, and Apple Watch; a narrowly dodged 15 percent tariff on iPhones that could have raised the cost of Apple's most crucial product by $150.

Apple physically can't outsource its manufacturing anywhere else in the world (and certainly not in the US). Then-COO Tim Cook led a 2005 shift to "just-in-time" manufacturing that cuts down on excess inventory and constantly pumps out new products. The result is that Apple today is almost exclusively

reliant on Chinese manufacturers like Foxconn. It's so important to Apple that when factories shut down from COVID-19, it caused hiccups down Apple's entire supply chain — and may even have caused delays for the upcoming iPhone 12 lineup this fall.

While recent developments in India have attempted to lessen Apple's need to exclusively build all of its hardware in China, it's a drop in the bucket compared to what Apple builds in — and therefore, would have to export from — China.

Apple is caught in a trap of its own making

But the trade deal still hasn't been completed (President Trump has indicated in recent interviews that the second phase of the deal is no longer a priority for him), and the newest escalation by Trump in targeting one of the biggest Chinese companies in the world could irreparably damage those trade talks. Instead of getting a reprieve from those impending tariffs, Apple could be forced to bear the costs of all of them or face even higher import taxes should China escalate the trade war further in retaliation.

That's all to say nothing of how important China's business itself is to Apple. As *The Economist* noted earlier this year, Apple made a total of $44 billion in China last year — more than any other American company. It's already the third-largest contributor to Apple's bottom line — in the company's most recent Q3 2020 earnings, China . And unlike Europe or the US, where Apple's market share has been largely stagnant for iPhone and Mac adoption, China still has huge potential to grow for Apple, which only comprises around 9 percent of the total Chinese smartphone market (which is currently dominated by Huawei, Vivo, Oppo, and Xiaomi).

It's not just iPhone sales, either: Chinese customers spent $1.53 billion in April on App Store purchases alone, a number that doesn't even include other service revenue for Apple (like iCloud or Apple Music subscriptions), which is a key

part of Apple’s ongoing business strategy.

Apple’s already been struggling with continuing that growth in China in recent years as phone sales have slowed, something that the shuttering of stores due to COVID-19 didn’t help. (Apple actually had to issue a rare update for its investors that lowered the company’s outlook because “demand for our products within China has been affected” by the virus.)

A stark reminder for Apple of how reliant it is on China
Most of Apple’s paid services – like the iTunes Store, Apple Books, Apple TV Plus, Apple Arcade, Apple News Plus, and the Apple Card – aren’t available in China either. That’s a big problem for Apple, which has started to look toward recurring subscriptions to make up for a steadily saturated iPhone market.

Apple’s success under Tim Cook has been largely built on its expansion into China, both as a manufacturing hub and a significant customer base. Trump’s WeChat ban could strike at that once-solid foundation, with the potential to shatter one of Apple’s biggest bastions of customers and its ability to manufacture almost any of its products.

Even if this does all blow over, it’s a stark reminder for Apple of how reliant the company is on China. It’s also a reminder of how easily the precarious house of its hyper-concentrated manufacturing hubs, App Store policies, and international business deals can fall apart – and potentially, take a huge chunk of Apple down with it.

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